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Phone: (703) 351-7676

13 April 1984

STAT

[Redacted]  
The Review of the News  
Belmont, MA 02178

Dear [Redacted]

STAT

Thank you for writing Deputy Director John McMahon, for whom I am responding.

The quotes attributed to Mr. McMahon in Mr. Gills' article are from a speech Mr. McMahon gave to the Reserve Officers Association. Mr. McMahon spoke with just notes and no text is available.

You may find more particulars about the Soviet bloc commercial officers and companies in the U.S. in a publication called the "East-West Business Directory" by the Carleton University of Ottawa, Canada, printed in 1983 in Great Britain by the Duncan Publishing Company. A local university library should carry this reference book.

Sincerely,

STAT

[Redacted]  
George V. Lauder  
Director, Public Affairs

DCI  
EXEC  
REG

P-30

# EAST-WEST TRADE Benefit or Trap?

For decades, the US has traded technology and food to the USSR, in return for little else than spies, aggression and dirty tricks. Here's an in-depth examination of this continuing situation.

By William J. Gill

**E**ach day for the past 20 years, millions of dollars in American-grown grain, American-made products and American-invented technology have poured out of American ports into the vast, insatiable maw of the Soviet Union.

In return, with the exception of a few products such as vodka and caviar, the US has received from the USSR an unending supply of spies, open or ill-concealed aggression in Asia, Africa and Central America and healthy doses of disinformation designed to hasten the demise of our country and Western civilization.

This dangerously uneven exchange is euphemistically called East-West trade. Such trade between the US and its allies with the Soviet bloc has grown to billions of dollars annually, most of it fueled by long-term credits at low interest rates gratuitously provided by Western bankers.

Dr. Zdzislaw M. Rurarz, Poland's ambassador to Japan until the Jaruzelski junta declared martial law in December 1981, has testified before a congressional committee that the Soviet Union and its subject countries never had any intention of paying off the huge trade debt, estimated now to be between \$80 and \$100 billion.

In fact, Rurarz said, by virtue of this staggering debt the USSR now holds the economies of the West hostage. "I spent most of my career in the international trade arena," Rurarz said, "and I know how absolutely necessary trade with the West is to

the Communist bloc. Without it, they could not sustain their economies and they certainly could not continue to support the Soviet armaments buildup that now threatens the entire world."

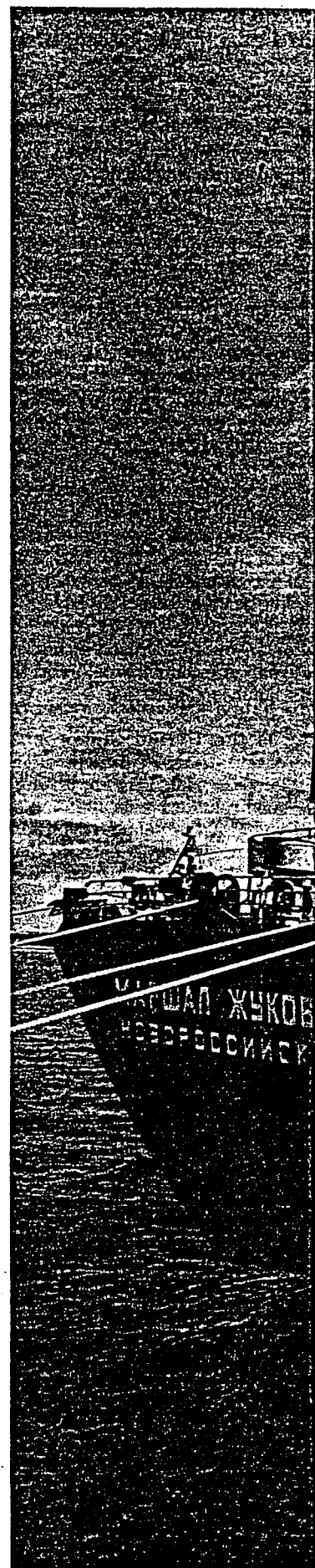
John N. McMahon, deputy director of the CIA, recently said that during the past 10 years—the same decade of accelerated East-West trade—the number of countries controlled by the USSR or under Soviet spheres of influence has doubled, from 25 in 1973 to 50 today.

McMahon said the domino theory has been proved and the Soviets are reaching worldwide to control the choke points of international trade, while stepping up their efforts to steal or otherwise acquire the most advanced Western technology. "There are 30 companies in the US owned by the Soviets or the Soviet bloc," McMahon said. Obviously, their mission is to expedite the export of American technology to the USSR.

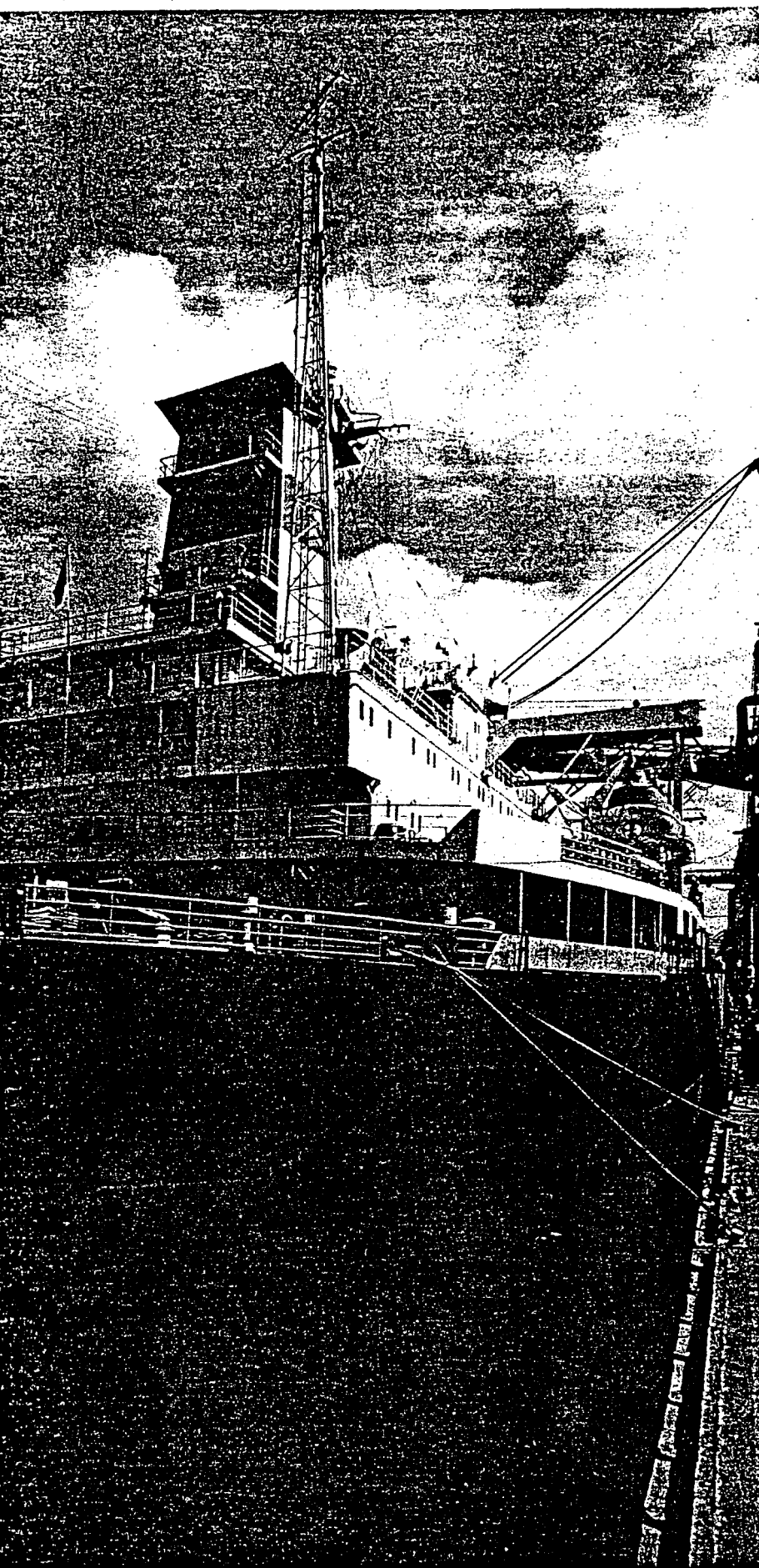
"An element of the SS-18 (the Soviet "super missile") is based on a US design, as is the range-finder in the new Soviet tank," McMahon told the recent convention of the Reserve Officers Association of the US. He also said that the Soviets had the plans for our C-5A aircraft *before it even flew*.

The CIA revelations add new substance to the disclosures made in THE AMERICAN LEGION MAGAZINE's October 1981 issue, by journalist M. Stanton Evans. In his article, Evans itemized some of the materiel the US has shipped to the USSR, including laser technology, high-speed computers, semiconductors, jet-engine technology, advanced radar systems, inertial guidance technology and precision ball bearing grinders needed to manufacture gyros used in MIRVing ICBMs.

*An author, journalist, television producer and consultant on international trade to several major US industries, William J. Gill is renowned as a reporter covering the Washington scene.*



THE AMERICAN LEGION MAG



*Soviet freighter Marshal Zhukov (left) loads wheat at Galveston, Texas, in 1983. US has supplied food to Russia since 1921.*

After a mild slowdown following the Soviet invasion of Afghanistan and the imposition of martial law in Poland, the US again is increasing its trade with the USSR. The Soviet Union, from Lenin to Andropov, has played the US and the other industrial free-world nations as a conductor directs a symphony orchestra, using trade as the baton to entice the musicians into playing the Communist tune.

Indeed, every time the Soviet economy has been on the verge of total collapse, the West has rushed to its rescue. In 1921, when famine struck Russia in the wake of the Bolshevik holocaust, Herbert Hoover organized the American relief expeditions that sent tons of food to the infant USSR.

Although Hoover and America acted out of humanitarian motives, the food shored up the shaky Soviet regime and probably kept it from being overthrown by counter-revolutionary forces still active inside Russia at that time. Curiously, Herbert Hoover was also the prime mover in industrializing the Soviet Union in the mid-1920s and early '30s. As secretary of commerce and, later, as President, he prompted the sale of heavy industrial plants to the USSR, including automotive and truck factories that are believed still to turn out tanks and other military vehicles.

In 1933, the sagging Soviet economy got another lift when President Franklin D. Roosevelt recognized the USSR diplomatically and signed a trade pact with the Kremlin. WWII, of course, saw American aid flow in huge quantities to the Soviet Union. At war's end, Stalin showed his gratitude by clamping a stranglehold on Eastern Europe, supporting Mao in the takeover of China and stepping up subversion worldwide.

For a period during the 1950s, US trade with the Soviets slowed. But after the Hungarian Revolution of 1956, the West's trade gates to the East opened wide and, with a few temporary exceptions, have remained open ever since. Incongruously, some of the biggest boosts in US exports to the USSR, including the first large grain shipments, came during the Vietnam War.

President Jimmy Carter reduced grain shipments to the Soviets and imposed other trade sanctions after Afghanistan, but the Reagan administration has approved a new long-term grain agreement and our allies openly defy our sanctions against technology transfer.

## East-West Trade

The rationale for East-West trade is based on the theory that trade will somehow encourage the Soviets to relax their iron grip on their own people and on their satellite countries, while discouraging them from additional adventurism.

In practice, however, the steady flow of trade and technology from the West has enabled the Soviets to strengthen the chains that hold the Russian people in bondage and has helped tighten their control over their subject populations in Eastern Europe. Moreover, trade obviously has failed to slow Soviet expansion.

The most forbidding sign on the one-way street of East-West trade is the enhancement of the Soviet strategic force. In the name of trade, the USSR is acquiring a first-strike nuclear capability that dangerously tips the strategic balance in its favor. The SS-18 that the CIA's McMahon spoke of is MIRVed with 12 independently targetable warheads believed to be so accurate they can destroy our fixed-base Minutemen, considered by some to be the major component of America's deterrent force. The ability to MIRV the SS-18 was given to the Soviets when the US permitted 164 ball bearing grinders to be shipped to the USSR over the protests of many defense experts.

The moral paralysis that results from the ever-increasing strength of the Soviet's nuclear strike force becomes more apparent every day. Despite this, some of our society's most fundamental institutions, particularly our churches and universities, are in the forefront of the nuclear freeze movement, which feeds on this paralysis and is heavily influenced by the Soviet Union.

East-West trade finds its strongest supporters in the business community. American bankers and industrialists, desirous of increasing their stake in international trade, exert mounting pressure on our government to approve increasingly sophisticated technology transfers to the Soviet bloc. "If we don't sell to them, the Germans and Japanese will" is the clinching argument they use.

Additionally, our allies now believe they have a fundamental right to supply the Soviets with virtually anything they want, no matter how obviously useful to the USSR's ever-growing military machine. Two years ago, the NATO alliance almost cracked wide open over the question of shipping

American-licensed equipment from Western European firms to help the Soviets complete the Yamal natural gas pipeline.


Ultimately, Great Britain, France and Germany openly defied the United States and shipped the Yamal equipment despite the personal protests of President Reagan, revealing once again the damaging impact East-West trade can have on the NATO alliance. Our government has also made an effort to strengthen COCOM, the coordinating committee comprising the NATO nations (with the exception of Spain and Iceland) and Japan, which theoretically decides what products and raw materials Western nations may export to the Soviet bloc. Whether US efforts to get COCOM to tighten up on strategic technology shipments to the bloc will pay off remains to be seen.

Another aspect of the problem is that some countries refuse to cooperate with the US in criminal investigations of foreign nationals suspected of working with American businessmen in violation of our proscription against shipping high technology products to the Soviet bloc. Several such cases were cited in a report by the US Senate's Permanent Subcommittee on Investigations (a part of the Committee on Governmental Affairs) published Nov. 15, 1982.

One case involved a West German, who allegedly set up several California firms with an American accomplice, a Russian-born naturalized US citizen. They allegedly shipped to the Soviet Union between 1977 and 1980 more than \$10 million in high technology equipment needed to build a semiconductor plant. They are alleged to have used one of the West German's foreign companies as the cut-out transfer point. To date, the West German government has refused to extradite the industrialist to the US, although, according to the subcommittee report, his accomplice was successfully prosecuted in 1981.

In another case, an Austrian formed a company in Tennessee, reportedly to order a special gunsight camera manufactured by a California company for the Air Force's F-4 fighters. The president of the American company reported the gunsight order to government officials and the Customs Service investigators arrested the Austrian at JFK Airport in New York, allegedly

*Transfer of US technology helped USSR build Yamal natural gas pipeline from Siberia to Europe and strained NATO alliances.*



as he was about to board a jet bound for Munich. The gunsight camera was found in his luggage and several business cards of Soviet officials also were on his person.

Yet, despite the overwhelming circumstantial evidence, he went free because the Austrian government refused to cooperate by allowing the US access to official shipping documents believed to prove that the Soviet Union was the ultimate destination of the camera.

Douglas K. Southard, deputy district attorney of Santa Clara County, home of California's famed "Silicon Valley," told the Senate subcommittee he was forced to maintain surveillance over massive technology shipments to the Soviet bloc with his small staff—a task he considered time-consuming and sometimes frustrating.

Southard cited the case of Peter K. Gopal, part owner of a Silicon Valley electronics firm, who was arrested for selling computer chips to undercover agents. Gopal allegedly had met with officials of the Soviet Consulate in San Francisco and had made numerous trips to Europe, Poland and the USSR. It was alleged in the report by the Permanent Subcommittee on Investigations that one of Gopal's close business associates was a member of an East German spy network.

The Commerce Department, the Senate report stated, "... found insufficient evidence to prove a federal violation more serious than a misdemeanor." Undaunted, Southard prosecuted Gopal on various state felony charges. Gopal was eventually convicted on six counts of receiving and possessing stolen trade secrets, bribery and conspiracy. Sentenced to two years and eight months in prison, Gopal still was free on bail pending appeal a year later.

The role of some businessmen, our allies and Soviet espionage agents in promoting East-West trade to the apparent detriment of the West is augmented by Soviet satellite countries. Poland, Hungary, Czechoslovakia, Romania, Bulgaria, East Germany—even Communist China—all play important roles in siphoning off advanced technology from the West.

Former Polish Ambassador Ruraz and others have made it clear that their countries are forced to serve as conduits for the Soviet Union. But some American businessmen and government bureaucrats seem to turn a blind eye to this plain, and potentially fatal, fact. The limited trade sanctions imposed on the Soviet Union after the Afghanistan invasion never applied to

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***"The fact is, sanctions have seldom been given any real chance to work."***

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other nations living under Soviet hegemony. The result was that those countries did the Soviet's shopping in the West during the interim.

This satellite by-pass, coupled with the defiance of our allies, meant that trade sanctions did not have the full effect intended. It also appeared to add substance to the favorite slogan of the pro-traders: "sanctions never work." The fact is that sanctions have seldom been given any real chance to work. If they were intelligently enforced by the US and observed by our allies, sanctions might have a decisive impact on East-West trade.

Indeed, trade sanctions are one of the few weapons still available to the West, short of war. Those who would forego the use of sanctions, no matter what aggressive moves the Soviets make, are, in essence, advocating surrender on the installment plan—a script the West has followed willy-nilly for several decades. It is a script, however, we would be pursuing at a rapidly accelerated rate if even the threat of sanctions were to be forever eliminated from policy consideration.

In the face of this stark reality, *The New York Times* and other influential organs of opinion continue to advocate the scuttling of all sanctions and substitution of more wide-open East-West trade. In an editorial on April 12, 1982, less than five months after the brutal crackdown on Solidarity in Poland, the *Times* editorialized:

"A more relaxed policy would serve the West's best interests because a steady supply of foreign technology saps the Soviet Union's incentives to develop its own. It is better to have the Soviets stealing, copying—and following a few steps behind—than working independently and becoming able to deliver a technological surprise..."

Dr. Jack Verona, director of the Defense Intelligence Agency's technology transfer office, told the Senate subcommittee that the *Times* editorial was "divorced from reality." He added that "... the Soviet leadership ap-

*Continued on page 42*



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## East-West Trade

Continued from page 17

preciates and has oftentimes noted the causal relation between science and technology and strategic superiority. To them, technology transfer is an important means to an end."

Verona testified that America's research and development establishment "... is viewed by the Soviets as a mother lode of important and frequently openly available [science and technology] information. In fact, they tap into it so frequently that one must wonder if they regard US R&D as their own national asset," he said. "They have enjoyed great success in this endeavor with minimal effort, primarily because, as a nation, we lack awareness of what they are about."

Over the past 30 years, the US has tried on many hats in its efforts to improve relations with the Soviet Union: peaceful coexistence, convergence, interdependence, detente and arms control. None of these hats ever fit. Indeed, they keep slipping down over Uncle Sam's eyes, making it impossible for him to see clearly.

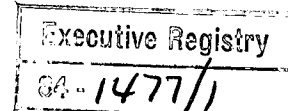
All of these oversized hats—these superficial slogans—have had the dangerous effect of speeding us further along what could become a one-way street to disaster if the Soviets achieve their aims. At some point, the US and its allies will have to stop living on slogans and adopt a realistic policy of trade with the Soviet Union and its subject nations.

Until we do, the Soviet's covert trade war is bound to keep tipping the strategic scales in their favor. ☐



"On second thought, I think that twine looked better on the other side."

THE AMERICAN LEGION MAGAZINE



13 April 1984

NOTE TO: DDCI  
FROM: George V. Lauder

Attached is our proposed response to a letter you received from [redacted] of "The Review of the News." The quotes to which Gill's article refer are from your Reserve Officers Association speech. Also attached is the American Legion Magazine article. STAT

You have said before that you don't mind excerpts but do not want the full text given out. The "Review of the News" is a very conservative magazine published weekly with ties to the John Birch Society.



George V. Lauder

STAT

DCI/PAO/KJH:mbm (13 Apr 84) 7676

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Remarks

Please clear response with  
DDCI.

*[Signature]*  
Executive Secretary  
4 April 84

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THE REVIEW OF THE NEWS / BELMONT, MASSACHUSETTS 02178



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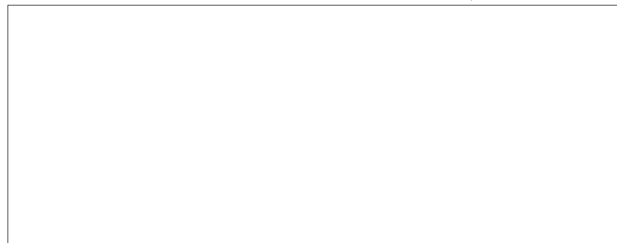
Mr. John N. McMahon  
Deputy Director  
Central Intelligence Agency  
Washington, DC 20505

Dear Mr. McMahon:

In an article in American Legion magazine, William Gill refers to comments recently made by you pertaining to increasing Soviet dominance and influence throughout the world. He also quotes you as saying, "There are 30 companies in the US owned by the Soviets or the Soviet bloc."

If your original remarks are available in text, may I have a copy of that text? Also, may I have more particulars about the Soviet bloc's 30 companies in the US?

Thank you.



STAT

WPF/em



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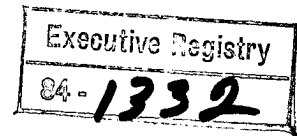
# The American Legion

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OFFICE OF THE  
EXECUTIVE DIRECTOR

March 6, 1984



*msc*  
*3/20/84*

Mr. William J. Casey, Director  
Central Intelligence Agency  
Washington, D. C. 20505

Dear Mr. Casey:

This year marks the 65th anniversary of both The American Legion and its noted national publication, and we have taken the occasion to redirect The American Legion Magazine's editorial focus to emphasize major issues of public concern. Over the next several months, therefore, we will be bringing our 8 million readers in-depth reports on problems involving our nation's security, major domestic developments, veterans' affairs and international relations.

Since we realize that no one is more concerned about these issues than you in government, we are adding your office to our publisher's mailing list. Please feel free to pass along at any time any reactions you might have to our reporting.

For your personal information, The American Legion Magazine is published monthly by the Legion for its nationwide membership. These military service veterans, working through 16,000 community-level posts, dedicate themselves to God and country and traditional American values; a strong national security; adequate and compassionate care for veterans, their widows and orphans; community service, and the wholesome development of our nation's youth.

Sincerely



Executive Director

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